

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITORS' REPORTS
JUNE 30, 2008

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
FINANCIAL STATEMENTS
JUNE 30, 2008

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**GREGORY
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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Martin Luther King, Jr. Education Center Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate fund information of the Martin Luther King, Jr. Education Center Academy as of and for the year ended June 30, 2008, as listed in the accompanying table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

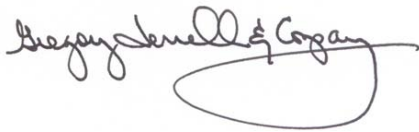
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Martin Luther King, Jr. Education Center Academy as of June 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated October 28, 2008 on our consideration of the Martin Luther King, Jr. Education Center Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Academy's basic financial statements. The accompanying required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The supplemental information is information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in dark ink, appearing to read "Gregory Terrell & Company", with a large, stylized loop at the end.

GREGORY TERRELL & COMPANY
Certified Public Accountants

October 28, 2008

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2008

The following discussion and analysis of Martin Luther King, Jr. Education Center Academy's financial statements provides an overview of the Academy's financial activities for the year ended June 30, 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and related notes. Responsibility for the completeness and fairness of this information rests with the Academy's management.

Using This Report

Martin Luther King, Jr. Education Center Academy's financial report includes four basic financial statements: Statement of Net Assets, which presents the assets, liabilities and net assets of the Academy at the end of the fiscal year, Balance Sheet, Statement of Activities, the Statement of Revenues, Expenditures and Changes in Fund Balances which reflects revenues and expenditures recognized during the fiscal year, and Notes to Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles which establish standards for external financial reporting for public school academies.

Financial Highlights

The financial statements contained in this report represent the Academy's financial position as of June 30, 2008. The Academy's financial position remains strong at June 30, 2008. Change in Net Assets for fiscal year ended June 30, 2008 was \$139,470. As will be noted later in this analysis, this can be attributed to continued tight control of expenditures and an increase in enrollment.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the Academy at the end of the fiscal year and includes all assets and liabilities of the Academy. The difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of the Academy while the change in net assets is an indicator of how the overall financial condition has changed during the year.

The Academy's financial position at June 30, 2008 consists of assets of \$2,082,468 and liabilities of \$141,284. Net assets increased from \$1,801,714 at June 30, 2007 to \$1,941,184 at June 30, 2008.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2008
(Continued)

Statement of Activities

The Statement of Activities provides a snapshot of the results of operations for the Academy as a whole for the fiscal year 2008. The total cost of the Academy's governmental activities for the year was \$2,084,443. The vast majority of the Academy's activities were supported by its state foundation funding of \$1,819,486. Grants of \$344,144 for specific programs also contribute to the Academy's funding. For the twelve months ending June 30, 2008, the Academy realized a \$139,470 increase in net assets. This year's increase in net assets was a result of successful cost control measures.

Economic Factors That Will Affect The Future

The Academy's history of sound fiscal management ensures its ability to maintain the competitive edge needed for survival in today's unstable educational market. The Academy continues an aggressive approach to providing quality education for Detroit's children by upgrading and expanding its facilities and programs. The Academy's history of educational excellence (30 years as an educational institution), pioneering spirit (one of the first schools chartered by the Detroit Public Schools), collaborative efforts (with institutions such as Wayne State University, Marygrove College and Lewis College of Business), and commitment to investing in children (our future), keeps it poised towards a secure financial future. The Academy expects continued growth and development in its ability to serve the Metropolitan Detroit community for many years to come.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities
ASSETS	
CURRENT ASSETS:	
Cash and Cash Equivalents	\$ 965,464
Due from Other Governmental Units	<u>499,346</u>
TOTAL CURRENT ASSETS	<u>1,464,810</u>
NONCURRENT ASSETS:	
Capital Assets	\$ 1,018,149
Less Accumulated Depreciation	<u>(400,491)</u>
TOTAL NONCURRENT ASSETS	<u>617,658</u>
TOTAL ASSETS	<u>\$ 2,082,468</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts Payable	\$ 108,926
Accrued Salaries and Related Items	<u>32,358</u>
TOTAL LIABILITIES	<u>141,284</u>
NET ASSETS:	
Invested in Capital Assets Net of Related Debt	\$ 617,658
Unrestricted	<u>1,323,526</u>
TOTAL NET ASSETS	<u>1,941,184</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,082,468</u>

The accompanying notes are an integral part of this financial statement.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

<u>Function / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>Services</u>	<u>Grants</u>	<u>Net (expenses)</u>
				<u>Revenue and</u>
				<u>Changes in</u>
				<u>Net Assets</u>
Governmental Activities:				
Instruction	\$ 1,140,079	\$ -	\$ 243,265	\$ (896,814)
Support Services	775,493	-	-	(775,493)
Food Services	96,694	-	100,879	4,185
Community Services	7,688	-	-	(7,688)
Pupil Transportation	7,802	-	-	(7,802)
Unallocated Depreciation	<u>56,687</u>	<u>-</u>	<u>-</u>	<u>(56,687)</u>
Total Governmental Activities:	<u>\$ 2,084,443</u>	<u>\$ -</u>	<u>\$ 344,144</u>	<u>\$ (1,740,299)</u>
General Revenues:				
State of Michigan school aid unrestricted				1,819,486
Miscellaneous				<u>60,283</u>
Total General Revenues				<u>1,879,769</u>
Change in Net Assets				139,470
Net Assets , Beginning of Year				<u>1,801,714</u>
Net Assets , End of Year				<u>\$ 1,941,184</u>

The accompanying notes are an integral part of this financial statement.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Assets			
Cash and Cash Equivalents	\$ 965,464	\$ -	\$ 965,464
Due from Other Governmental Units	<u>499,346</u>	<u>-</u>	<u>499,346</u>
TOTAL ASSETS	<u><u>\$ 1,464,810</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,464,810</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 108,926	\$ -	\$ 108,926
Accrued Salaries and Related Items	<u>32,358</u>	<u>-</u>	<u>32,358</u>
TOTAL LIABILITIES	<u><u>\$ 141,284</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 141,284</u></u>
Fund Balance			
Unreserved, Undersigned	\$ 1,323,526	\$ -	\$ 1,323,526
TOTAL FUND BALANCES	<u><u>\$ 1,323,526</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,323,526</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 1,464,810</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,464,810</u></u>
Total Governmental Fund Balances			\$ 1,323,526
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
The cost of the capital assets is		\$ 1,018,148	
Accumulated depreciation is		<u>(400,490)</u>	<u>617,658</u>
Net Assets of Governmental Activities			<u>\$ 1,941,184</u>

The accompanying notes are an integral part of this financial statement.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Local Sources	\$ 60,283	\$ -	\$ 60,283
State Sources	1,918,377	-	1,918,377
Federal Sources	<u>144,374</u>	<u>100,879</u>	<u>245,253</u>
Total Revenues	<u>\$ 2,123,034</u>	<u>\$ 100,879</u>	<u>\$ 2,223,913</u>
EXPENDITURES:			
Current:			
Instruction:			
Basic Programs	\$ 1,140,079	\$ -	\$ 1,140,079
Total Instruction	<u>\$ 1,140,079</u>	<u>\$ -</u>	<u>\$ 1,140,079</u>
Support Services:			
Pupil	\$ 57,654	\$ -	\$ 57,654
Instructional Support	34,414	-	34,414
General Administration	78,083	-	78,083
School Administration	328,346	-	328,346
Business Services	5,871	-	5,871
Operations and Maintenance	<u>286,874</u>	<u>-</u>	<u>286,874</u>
Total Support Services	<u>\$ 791,242</u>	<u>\$ -</u>	<u>\$ 791,242</u>
Food Services	\$ -	\$ 96,694	\$ 96,694
Pupil Transportation	\$ 7,802	\$ -	\$ 7,802
Community Services	<u>\$ 7,688</u>	<u>\$ -</u>	<u>\$ 7,688</u>
Total Expenditures	<u>\$ 1,946,811</u>	<u>\$ 96,694</u>	<u>\$ 2,043,505</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 176,223</u>	<u>\$ 4,185</u>	<u>\$ 180,408</u>
OTHER FINANCING SOURCES (USES):			
Operating Transfers In	\$ 4,185	\$ -	\$ 4,185
Operating Transfers Out	<u>-</u>	<u>(4,185)</u>	<u>(4,185)</u>
Total Other Financing Sources (Uses)	<u>\$ 4,185</u>	<u>\$ (4,185)</u>	<u>\$ -</u>
NET CHANGE IN FUND BALANCES	<u>\$ 180,408</u>	<u>\$ -</u>	<u>\$ 180,408</u>
Beginning of Year	<u>1,143,118</u>	<u>-</u>	<u>1,143,118</u>
End of Year	<u><u>\$ 1,323,526</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,323,526</u></u>

The accompanying notes are an integral part of this financial statement.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Net change in fund balances total governmental funds	\$ 180,408
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(56,687)
Capital Outlay	<u>15,749</u>

Change in net assets of governmental activities	<u>\$ 139,470</u>
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The accompanying notes are an integral part of this financial statement.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with final budget Positive (Negative)</u>
REVENUES:				
Local	\$ -	\$ -	\$ 60,283	\$ 60,283
State Sources	1,863,932	1,863,932	1,918,377	54,445
Federal Sources	-	-	144,374	144,374
Total Revenues	<u>\$ 1,863,932</u>	<u>\$ 1,863,932</u>	<u>\$ 2,123,034</u>	<u>\$ 259,102</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic Programs	<u>\$ 1,125,967</u>	<u>\$ 1,125,967</u>	<u>\$ 1,140,079</u>	<u>\$ (14,112)</u>
Total Instruction	<u>\$ 1,125,967</u>	<u>\$ 1,125,967</u>	<u>\$ 1,140,079</u>	<u>\$ (14,112)</u>
Support Services:				
Pupil	53,700	53,700	57,654	(3,954)
Instructional Support	34,340	34,340	34,414	(74)
General Administration	20,492	20,492	78,083	(57,591)
School Administration	317,003	317,003	328,346	(11,343)
Business Support	5,600	5,600	5,871	(271)
Operations and Maintenance	<u>288,670</u>	<u>288,670</u>	<u>286,874</u>	<u>1,796</u>
Total Support Services	<u>\$ 719,805</u>	<u>\$ 719,805</u>	<u>\$ 791,242</u>	<u>\$ (71,437)</u>
Pupil Transportation	<u>\$ 9,900</u>	<u>\$ 9,900</u>	<u>\$ 7,802</u>	<u>\$ 2,098</u>
Community Services	<u>\$ 8,260</u>	<u>\$ 8,260</u>	<u>\$ 7,688</u>	<u>\$ 572</u>
Total Expenditures	<u>\$ 1,863,932</u>	<u>\$ 1,863,932</u>	<u>\$ 1,946,811</u>	<u>\$ (82,879)</u>
Revenues over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 176,223</u>	<u>\$ 176,223</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In (Out)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,185</u>	<u>\$ 4,185</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 180,408</u>	<u>\$ 180,408</u>
Beginning of Year	<u>1,143,118</u>	<u>1,143,118</u>	<u>1,143,118</u>	<u>-</u>
End of Year	<u>\$ 1,143,118</u>	<u>\$ 1,143,118</u>	<u>\$ 1,323,526</u>	<u>\$ 180,408</u>

The accompanying notes are an integral part of this statement.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2008

(1) **ORGANIZATION**

Martin Luther King, Jr. Education Center Academy (the "Academy") is an Education Center Academy (K-6) chartered school. One of the goals of this culture-based chartered school is to provide a learning environment that encourages academic excellence and social responsibility. The school is chartered through the Detroit Public School District.

(2) **ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS**

The academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of inter-fund activity has been removed from these statements. All of the Academy's activities are classified as governmental activities.

The statement of activities, demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid and other unrestricted items are not included as program revenues but instead as *general revenues*.

Measurement focus, basis of accounting, and financial statement presentation

The academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current *financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

(2) **ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)**

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The Academy reports the following non-major governmental fund:

The *school service fund* is the Academy's primary non-major fund. It is used to account for food services operations. It is a subsidiary operation and obligation of the General Fund.

(3) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with the accounting principles outlined in the Michigan School Accounting Manual. The significant accounting policies followed by Martin Luther King, Jr. Education Center Academy (the "Academy") are described below:

Cash Equivalents

Cash equivalents include short-term, highly liquid investments that are readily convertible to cash.

Investments

Investments are stated at fair value.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

(3) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Furniture and other equipment	5-10 years
Leasehold Improvements	20 years

The Academy's capitalization policy is individual amounts exceeding \$ 1,000.

Revenue Recognition

All grant and contract revenues are recognized only to the extent earned.

Use of Estimates

The preparation of general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the general purpose financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

Budgets and Budgetary Accounts

The General Fund and School Service Fund budgets were adopted on a basis consistent with accounting principles generally accepted in the United States of America and in compliance with the Uniform Budgeting and Accounting Act (P.A. 621 of 1978).

For the year end June 30, 2008, expenditures exceeded appropriations as follows:

Instruction	\$ (14,112)
Pupil Support	(3,954)
Instructional Support	(74)
General Administration	(57,591)
School Administration	(11,343)
Business Support	(271)

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

(4) **CASH AND CASH EQUIVALENTS**

The Academy's deposits are included on the balance sheet under the following classifications:

Cash and Cash Equivalents	<u>\$ 965,464</u>
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State law authorizes the Academy to make deposits in the accounts of federally insured financial institutions.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned by the bank. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all banks deposits. As a result, the Academy evaluates each financial institution it deposits Academy funds with and assesses the level of risk of each financial institution; only those institutions with an acceptable estimated risk level are used as depositories. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$985,169. Of that amount \$100,000 was covered by federal depository insurance.

(5) **CAPITAL ASSETS**

A summary of changes in the Academy's capital assets is follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Capital assets				
Furniture and equipment	\$ 701,092	\$ -	\$ -	\$ 701,092
Leasehold improvements	<u>301,307</u>	<u>15,749</u>	<u>-</u>	<u>317,056</u>
Subtotal	\$ 1,002,399	\$ 15,749	\$ -	\$ 1,018,148
Less accumulated depreciation	<u>343,803</u>	<u>56,687</u>	<u>-</u>	<u>400,490</u>
Net capital assets	<u>\$ 658,596</u>	<u>\$ 40,938</u>	<u>\$ -</u>	<u>\$ 617,658</u>

Depreciation for the fiscal year ended June 30, 2008 amounted to \$56,687. The Academy determined that it was impractical to allocate depreciation to the various Academy activities as the assets serve multiple functions.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

(6) **RELATED PARTY TRANSACTIONS**

The Academy is party to an operating lease for the buildings in which its operations are conducted. The building lease is with Antioch Church of God in Christ, Inc. and Havius Green. Mr. Green is the Pastor of Antioch Church of God in Christ as well as the Academy's Assistant Administrative Director. During fiscal 2008, approximately \$42,000 in rental payments was made.

(7) **DEFINED BENEFIT PENSION PLAN**

Plan Description – Martin Luther King, Jr. Education Center Academy participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Academy. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy – Employer contributions to the system result from the effects of implementing the School Finance Reform Act. Under these procedures, each school district or participating Public School Academy is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate total was 17.34 percent for the period of October 1, 2006 through September 30, 2007 and 16.72 percent for the period of October 1, 2007 through September 30, 2008 of the covered payroll to the plan. Basic plan members make no contributions. Member Investment Plan (MIP) participants contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The Academy's contributions to the MPERS plan for the year ended June 30, 2008, was \$164,612.

(8) **OPERATING LEASE COMMITMENTS**

The Academy is party to an operating lease on the buildings described in Note 6. The lease requires monthly payments of \$3,500.

Future minimum lease rentals under operating leases are as follows:

2009	\$ 42,000
2010	42,000
2011	<u>38,500</u>
	<u>\$ 122,500</u>



**GREGORY
TERRELL
& COMPANY**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Martin Luther King, Jr. Education Center Academy

We have audited the financial statements of Martin Luther King, Jr. Education Center Academy (the "Academy") as of and for the year ended June 30, 2008, and have issued our report thereon dated October 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Martin Luther King Jr. Education Center Academy (the "Academy") for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing and opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies, and communicated them in writing to management charged with governance on October 28, 2008.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

Finding Type – Segregation of Duties

Criteria – The Academy should separate key accounting and authorization functions and implement adequate internal controls over key accounting functions to mitigate the risk of fraud.

Condition – During the audit year, the Academy had one employee that performed many key accounting and authorization functions, for example the employee completed the bank reconciliation and was also a check signer. The Academy did implement new procedures before the audit fieldwork began, however the procedures were not in place during the audit year.

Recommendation – We recommend that the Academy retain an accountant throughout the year, which will eliminate the need for one person to perform all key accounting functions. In addition, we recommend that the Board increase their level of oversight.

Finding Type – Financial Reporting

Criteria – To maintain adequate controls and complete accounting records, the Academy should maintain employment of an accountant that has the ability to properly record accounting transactions and prepare monthly financial statements including required disclosures.

Condition – The Academy did not have an accountant employed on a consistent basis throughout the school year. This resulted in inaccurate financial reporting. However, the Academy employed an accountant prior to the start of our audit fieldwork to assist in preparation for the audit.

Recommendation – We recommend that the Academy retain an accountant throughout the year that has the skills necessary to record transactions, perform monthly reconciliations of general ledger accounts, and prepare complete and accurate financial statements each month. In addition, a skilled accountant could assist in budget preparation, budget monitoring and ensuring that transactions are properly recorded in accordance with the State of Michigan mandated chart of accounts.

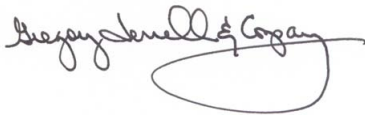
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that a material misstatement of the Academy's financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider them to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under "Government Auditing Standards".

This report is intended for the information and use of the Board of Directors, Management and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read "Gregory Terrell & Company", with a large, stylized loop at the end.

GREGORY TERRELL & COMPANY
Certified Public Accountants

October 28, 2008